

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Lapeer County Road Commission	County Lapeer
Audit Date 12/31/05	Opinion Date 05/08/06	Date Accountant Report Submitted to State: 06/26/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

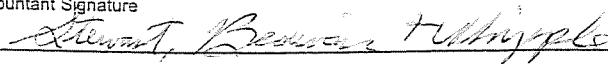
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 06/26/06	

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

DECEMBER 31, 2005
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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Lapeer County
Lapeer, Michigan

We have audited the accompanying basic financial statements of the Lapeer County Road Commission, a component unit of Lapeer County, Michigan, as of December 31, 2005, and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Lapeer County, Michigan, as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated May 8, 2006, on our consideration of the Road Commission of Lapeer County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Lapeer County Road Commission. The schedules on pages 25-27 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Lapeer County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beavert Whipple".

Certified Public Accountants

May 8, 2006

LAPEER COUNTY ROAD COMMISSION

A Component Unit of Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lapeer County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Lapeer County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Governmental Financial Statements

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Lapeer County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-24 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$70,890,149 at the end of the year.

The net assets are separated into three major components, invested in capital assets net of related debt, which amounted to \$65,943,571 or 93% of net assets, restricted net assets of \$1,792,191 or 2.5% of net assets and finally unrestricted net assets of \$3,154,387 or 4.5%. The invested in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt not funded by Townships. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's on-going obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted and unrestricted net assets). The Road Commission's combined net assets increased \$1,603,439 from a year ago.

The following table presents a comparison of the net assets at December 31, 2005 and 2004 in a condensed format:

Condensed Statement of Net Assets	<u>2005</u>	<u>2004</u>
Assets		
Current and other unrestricted assets	\$ 3,291,080	\$ 4,845,817
Due from townships – MTF note agreements	2,575,032	2,940,000
Capital Assets	<u>69,890,783</u>	<u>65,915,964</u>
Total Assets	<u>75,756,895</u>	<u>73,701,781</u>
Liabilities		
Long-term liabilities outstanding	3,947,212	3,053,309
Other liabilities	<u>919,534</u>	<u>1,361,762</u>
Total Liabilities	<u>4,866,746</u>	<u>4,415,071</u>
Net Assets:		
Invested in capital assets	65,943,571	62,937,564
Restricted	1,792,191	3,363,088
Unrestricted	<u>3,154,387</u>	<u>2,986,058</u>
Total net assets	<u>\$ 70,890,149</u>	<u>\$ 69,286,710</u>

The following table presents a comparison of Statement Activities at December 31, 2005 and 2004 in a condensed format:

Condensed Statement of Activities	<u>2005</u>	<u>2004</u>
Revenues		
Federal Sources	\$ 762,017	\$ 1,287,376
State Sources	7,983,567	8,280,268
Local Sources	1,668,921	2,110,557
Charges for Services and Other	<u>1,757,540</u>	<u>1,844,860</u>
	<u>12,172,045</u>	<u>13,523,061</u>
Expenses		
Maintenance	5,927,630	5,752,511
Administration	737,110	674,591
Equipment (net)	(498,172)	(663,915)
Other	918,965	298,710
Depreciation	<u>3,483,073</u>	<u>3,209,262</u>
	<u>10,568,606</u>	<u>9,271,159</u>
Change in Net Assets	<u>\$ 1,603,439</u>	<u>\$ 4,251,902</u>

Financial Analysis of Governmental Fund Statements

As noted earlier, the focus of the fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$2,455,740, a decrease of \$972,367 from the prior year. \$628,894 of the fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that the amount is not available for new spending because \$34,655 has been prepaid and \$1,792,191 has been reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2005 budget to reflect status changes in preservation-structural improvement projects related to road and bridge projects. The total final budget was \$717,359 and \$91,911 for revenues and expenditures, respectively, less than the original budget primarily for these reasons. The actual 2005 revenues being \$496,280 more than the amended budget is basically the result of MTF revenue being greater than anticipated. The actual 2005 expenditures being \$2,761,252 more than the amended budget was the result of not amending the budget for new projects that initiated during the year as the result of available dollars.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$69,890,783 in capital assets at the end of the year. The reason for the increase from the previous year was the purchase of new Road equipment and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues.

The following table presents a summary of capital assets net of accumulated depreciation at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Land & Land Improvements	\$ 34,376,947	\$ 32,599,756
Depletable Assets	70,847	70,847
Buildings & Improvements	620,503	635,898
Equipment – Road	27,777,793	1,722,697
Equipment – Other	-	7,388
Infrastructure	32,032,310	30,879,378
Construction in Progress	<u>12,383</u>	<u>-</u>
Total Capital Assets	<u>\$ 69,890,783</u>	<u>\$ 65,915,964</u>

Additional information on the Road Commission's capital assets may be found in Note 7 to the financial statements on pages 17-18.

Long-Term Liabilities – At the end of the current year, the Road Commission had total MTF note debt outstanding of \$2,450,000. Through agreements with several townships this debt and related interest is to be paid by them. The debt is backed by the full faith and credit of Lapeer County. Additional information on the Road Commission's long-term liabilities may be found in Note 9 to the financial statements on pages 20-21.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission major revenue streams continue to be stable. Long-term state fiscal crises could affect local townships ability to be able to fund preservation-structural improvements and projects as well as routine maintenance services. This could particularly affect our shared programs. It is anticipated that federal project revenue will decline; however, the exchange of federal dollars for local dollars should be approximately the same as 2005.

The 2006 budget projects an original reduction in expenditures waiting for possible approval of projects by the townships. As a result, an increase in fund balance of approximately \$1,799,000 is the preliminary projection for 2006.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Lapeer County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Lapeer County Road Commission, 820 Davis Lake Road, Lapeer, Michigan, 48446.

BASIC FINANCIAL STATEMENTS

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,225,663	\$ -	\$ 1,225,663
Due from other governmental units -			
State	1,300,534	-	1,300,534
Local	2,528,253	46,779	2,575,032
Accounts receivable	5,136	-	5,136
Prepaid expenditures/expenses	34,655	70,334	104,989
Inventory	654,758	-	654,758
Capital assets, net of accumulated depreciation			-
Assets not being depreciated	-	34,389,330	34,389,330
Assets being depreciated	-	35,501,453	35,501,453
Total Assets	<u>\$ 5,748,999</u>	<u>\$ 70,007,896</u>	<u>\$ 75,756,895</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts payable	\$ 232,690	\$ -	\$ 232,690
Accrued liabilities	130,716	-	130,716
Accrued interest payable	-	76,275	76,275
Due to other governmental units	4,456	-	4,456
Advances and deposits	475,397	-	475,397
Deferred revenue	2,450,000	(2,450,000)	-
Noncurrent liabilities -	-		-
Due within one year	-	808,635	808,635
Due in more than one year	-	3,138,577	3,138,577
Total Liabilities	<u>3,293,259</u>	<u>1,573,487</u>	<u>4,866,746</u>

Fund Balance:

Fund Balance -			
Reserved -			
Prepaid expenditures	34,655	(34,655)	-
Primary/Local Roads	1,792,191	(1,792,191)	-
Unreserved -			
Undesignated	628,894	(628,894)	-
Total Fund Balance	<u>2,455,740</u>	<u>(2,455,740)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 5,748,999</u>		

Net Assets:

Invested in capital assets, net of related debt	65,943,571	65,943,571
Restricted for Primary/Local Roads	1,792,191	1,792,191
Unrestricted	3,154,387	3,154,387
Total Net Assets	<u>\$ 70,890,149</u>	<u>\$ 70,890,149</u>

See Notes to Financial Statements

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 161,124	\$ -	\$ 161,124
Intergovernmental -			
Federal sources	762,017	-	762,017
State sources	7,983,567	-	7,983,567
Local sources	2,168,342	(499,421)	1,668,921
Charges for services	1,453,344	-	1,453,344
Interest and rents	62,502	-	62,502
Other	80,570	-	80,570
Total Revenues	<u>12,671,466</u>	<u>(499,421)</u>	<u>12,172,045</u>
Other Financing Sources:			
Note proceeds	1,419,191	(1,419,191)	-
Total Revenues and other financing sources	<u>14,090,657</u>	<u>(1,918,612)</u>	<u>12,172,045</u>
Expenditures/Expenses:			
Current -			
Primary preservation - structural improvements	3,184,525	(3,184,525)	-
Local preservation - structural improvements	2,461,165	(2,461,165)	-
Primary maintenance	1,923,240	(7,189)	1,916,051
Local maintenance	2,794,309	744	2,795,053
State maintenance	1,216,526	-	1,216,526
Administrative	761,133	(24,023)	737,110
Equipment	2,438,086	(754,589)	1,683,497
Less equipment rental			
charged to other activities	(2,181,669)	-	(2,181,669)
Depreciation	-	3,483,073	3,483,073
Other	763,258	-	763,258
Capital Outlay	1,894,491	(1,894,491)	-
Less: depreciation credit			
and retirements	(856,645)	856,645	-
Debt Service -			
Principal	528,400	(528,400)	-
Interest	136,205	19,502	155,707
Total Expenditures/Expenses	<u>15,063,024</u>	<u>(4,494,418)</u>	<u>10,568,606</u>
Excess of revenues and other sources over (under) expenditures/expenses	(972,367)	2,575,806	1,603,439
Fund Balance/Net Assets at January 1, 2005	<u>3,428,107</u>	<u>65,858,603</u>	<u>69,286,710</u>
Fund Balance/Net Assets at December 31, 2005	<u>\$ 2,455,740</u>	<u>\$ 68,434,409</u>	<u>\$ 70,890,149</u>

See Notes to Financial Statements

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 160,000	\$ 160,000	\$ 161,124	\$ 1,124
Intergovernmental -				
Federal sources	1,334,000	1,334,000	762,017	(571,983)
State sources	7,400,000	6,650,000	7,983,567	1,333,567
Local sources	2,230,256	2,230,256	2,168,342	(61,914)
Charges for services	1,502,500	1,562,641	1,453,344	(109,297)
Interest and rents	35,000	35,000	62,502	27,502
Other	250,000	202,500	80,570	(121,930)
Total Revenues	<u>12,911,756</u>	<u>12,174,397</u>	<u>12,671,466</u>	<u>497,069</u>
Other Financing Sources:				
Note proceeds	1,400,000	1,420,000	1,419,191	(809)
Total Revenues and other financing sources	<u>14,311,756</u>	<u>13,594,397</u>	<u>14,090,657</u>	<u>496,260</u>
Expenditures:				
Current -				
Primary preservation - structural improvements	2,590,600	2,340,600	3,184,525	(843,925)
Local preservation - structural improvements	2,579,691	2,579,691	2,461,165	118,526
Primary maintenance	1,500,119	1,500,119	1,923,240	(423,121)
Local maintenance	2,010,601	2,092,331	2,794,309	(701,978)
State maintenance	860,391	860,391	1,216,526	(356,135)
Administrative	650,000	650,000	761,133	(111,133)
Equipment - net	250,000	250,000	256,417	(6,417)
Other	430,500	430,500	763,258	(332,758)
Capital Outlay - net	858,500	934,859	1,037,846	(102,987)
Debt Service	663,281	663,281	664,605	(1,324)
Total Expenditures	<u>12,393,683</u>	<u>12,301,772</u>	<u>15,063,024</u>	<u>(2,761,252)</u>
Excess of revenues and other sources over (under) expenditures	1,918,073	1,292,625	(972,367)	(2,264,992)
Fund Balance at January 1, 2005	<u>3,347,331</u>	<u>3,428,106</u>	<u>3,428,107</u>	<u>1</u>
Fund Balance at December 31, 2005	<u>\$ 5,265,404</u>	<u>\$ 4,720,731</u>	<u>\$ 2,455,740</u>	<u>\$(2,264,991)</u>

NOTES TO FINANCIAL STATEMENTS

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Lapeer County Road Commission, a component unit of the County of Lapeer, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

A. Description of Road Commission Operations –

The Lapeer County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Lapeer, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal awards, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government (townships) for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to eighteen (18) Townships in Lapeer County and maintains over 1,400 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash And Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of ninety days or less from the date of purchase. Cash equivalents include investment trust funds and are recorded at cost which approximates market value. The investment trust funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of first-in, first-out (cost or market) or at average cost.

Deferred Federal And State Aid – On certain federal and state funded construction projects in the County and administered by the Michigan Department of Transportation, the Road Commission is required to pay the local portion of the project costs at the start of the project. The local portion is recorded as Deferred Aid at the time of payment. The expenditure is recognized upon notice from the Michigan Department of Transportation that construction has been completed.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

Advance From The State Of Michigan - The State of Michigan advances funds on a State maintenance agreement it has with the Lapeer County Road Commission for equipment purchased and used in performance of the specified maintenance. This advance is considered a current liability because it is subject to repayment annually upon audit by the State of Michigan.

Accrued Vacation And Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested accumulated vacation leave upon termination for any reason, and for their vested sick leave upon retirement or death. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Equipment Rentals - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Long-Term Obligations – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. MTF Note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. MTF notes payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 2,455,740
Capital assets used in the governmental fund statements that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	96,749,418
Deduct – accumulated depreciation	(26,858,635)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	(3,947,212)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	(76,275)
Prepaid expenses not reported in the governmental fund statements	70,334
Accrued interest receivable due from Townships not reported in the governmental fund statements	46,779
Revenues that have been deferred in the governmental fund statements because they are not “available”	<u>2,450,000</u>
Net Assets	<u>\$70,890,149</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues over (under) expenditures – governmental fund statement	\$(972,367)
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	7,528,532
Deduct – retirements	(70,640)
Deduct – depreciation	(3,483,073)

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):

Revenues deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	\$ (490,000)
Note proceeds reported as other financing sources in the governmental fund statements, but not in the government-wide statements where it is reported as long-term liability.	(1,419,191)
Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	528,400
Township contribution adjustment for accrual reported in the government-wide Statement of Activities when the revenue is earned and reported in the governmental fund statements only when the revenue is available	(9,421)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	(19,502)
Prepaid expense adjustment not reported in the governmental fund statements	13,813
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	(3,112)
Change in Net Assets	<u>\$1,603,439</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont’d):

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor’s Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Road Commission Manager prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution. After the budget is adopted, the Manager is authorized to transfer up to 25% of a line item amount of the adopted budget, subject to the approval of the Board of County Road Commissioners at the Board meeting following the amendments. The Manager is also authorized to transfer amounts between items of the adopted budget at year-end to reflect the effects of the distribution of the distributive account.

The Road Commission’s approved budget was adopted at the expenditure control level by activity. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that the government unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2005, the Road Commission had expenditures that exceeded the appropriation as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2005, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 350
Deposits with Financial Institutions	
Imprest Checking	47,288
Checking maintained by County Treasurer	6,268
Investments	
Government Investment Trusts	<u>1,171,747</u>
	<u>\$ 1,225,663</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Lapeer County Treasurer’s Office, and in order to make disbursements, the Lapeer County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):

Custodial Credit Risk – Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Road Commission, as of December 31, 2005, the book value of the Road Commission's deposits was \$53,556 with a corresponding bank balance of \$66,039. The total bank balance was covered by Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Investments - is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments that are in the possession of another side party. The County's policy requires securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts. As of December 31, 2005, the County Treasurer on behalf of the Road Commission had \$1,171,747 invested in governmental investment trust funds. The investment trust funds carry an Aaa (Moody's) rating. The investment trust funds seek to preserve the value of investment at \$1 per unit. The County's investment policy is silent on the use of rated versus unrated investment.

Concentration of Credit Risk - Investments - is the risk of loss attributed to the magnitude of the County's investment in a single issuer. The County's investment policy requires diversification by security type but does not place a fixed percentage limit for any one issuer. As of December 31, 2005, the County had 100% of the Road Commission's investments in investment trust funds with one bank.

Interest Rate Risk – Investment - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At year-end, the County's investments on behalf of the Road Commission in investment trust funds are considered to have a maturity date of less than one year since they have the general characteristics of demand deposit accounts in that the County, on behalf of the Road Commission, may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 5 - TOWNSHIP NOTE PROGRAMS:

The Due From Other Governmental Units – Local includes Township Note Programs in the amount of \$2,450,000 at December 31, 2005, which represents the amount that the Townships are participating in repayment of 1997, 2000 and 2002 MTF notes. A corresponding amount has been recorded as deferred revenue in the governmental fund statements and will be recognized as revenue as payments from the Townships become available.

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 6 – FEDERAL AWARDS – (cont'd):

During the year ended December 31, 2005, the Road Commission of Lapeer County expended less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act was not performed.

Federal revenues of \$128,014 represent Department of Transportation Federal Highway grant money expended on public road improvement projects under Federal Programs which were administered by the Michigan Department of Transportation, however, are required to be reported by the Road Commission.

NOTE 7 – CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2005	Additions	Deletions	Adjustments and Removals	Balance December 31, 2005
Capital Assets, not being depreciated –					
Land	\$ 159,507	\$ -	\$ -	\$ -	\$ 159,507
Land improvements	32,260,203	1,777,191	-	-	34,037,394
Right of Ways		180,046	-	-	-
180,046					
Construction in Progress	-	12,383	-	-	12,383
Total Capital Assets, not being depreciated	<u>32,599,756</u>	<u>1,789,574</u>	<u>-</u>	<u>-</u>	<u>34,389,330</u>
Capital Assets, being depreciated –					
Buildings and improvements	1,817,834	40,000	-	-	1,857,834
Road Equipment	6,081,374	1,854,491	698,671	-	7,237,194
Shop Equipment	154,591	-	-	-	154,591
Office Equipment	507,095	-	-	-	507,095
Engineering equipment	70,700	-	-	-	70,700
Infrastructure –					
Roads	38,429,939	2,665,786	-	(1,166,021)	39,929,704
Bridges	11,135,436	1,178,681	-	-	12,314,117
Traffic signals	83,723	-	-	-	83,723
Depletable assets –					
Gravel pits	205,130	-	-	-	205,130
	<u>58,485,822</u>	<u>5,738,958</u>	<u>698,671</u>	<u>(1,166,021)</u>	<u>62,360,088</u>

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7 – CAPITAL ASSETS – (cont'd):

	Balance January 1, 2005	Additions	Deletions	Adjustments and Removals	Balance December 31, 2005
Less – accumulated depreciation for –					
Buildings and improvements	\$ 1,181,936	\$ 55,395	\$ -	\$ -	\$ 1,237,331
Road Equipment	4,358,677	728,755	628,031	-	4,459,401
Shop Equipment	154,591	-	-	-	154,591
Office Equipment	499,707	7,388	-	-	507,095
Engineering Equipment	70,700	-	-	-	70,700
Infrastructure –					
Roads	15,696,443	2,426,361	-	(1,166,021)	16,956,783
Bridges	3,041,413	260,404	-	-	3,301,817
Traffic signals	31,864	4,770	-	-	36,634
Depletable Assets	<u>134,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,283</u>
	<u>25,169,614</u>	<u>3,483,073</u>	<u>628,031</u>	<u>(1,166,021)</u>	<u>26,858,635</u>
 Total Capital Assets, being depreciated, net	 <u>33,316,208</u>	 <u>2,255,885</u>	 <u>70,640</u>	 <u>-</u>	 <u>35,501,453</u>
 Governmental activity capital assets, net	 <u>\$ 65,915,964</u>	 <u>\$ 4,033,076</u>	 <u>\$ 70,640</u>	 <u>\$ -</u>	 <u>\$ 69,890,783</u>

The State of Michigan does not allow depreciation to be recorded in the governmental fund statements on salt shed and salt lagoon construction costs reimbursed by the State. However, the depreciation of \$5,553 on the salt sheds and lagoon is recorded in the government-wide statement of activities. Total depreciation for the year ended December 31, 2005 was \$3,483,073.

NOTE 8 - ADVANCES AND DEPOSITS:

Advances and Deposits of \$475,397 at December 31, 2005, represent money advanced by the State of Michigan, under the maintenance contract the Road Commission has with the State for equipment purchases, advances and deposits from Townships, contractors and individuals for various projects. The State advance is adjusted annually by the State, and must be repaid if the maintenance contract is cancelled. The following is a summary of the balance by source and use:

State -	
Equipment	<u>\$ 220,933</u>
Local -	
Other Governmental Units -	
Township advances	5,835
Contractors and Individuals -	
Permits	128,810
Other	<u>119,819</u>
	<u>254,464</u>
	 <u>\$ 475,397</u>

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 9 – LONG-TERM LIABILITIES:

The Road Commission has the following long-term liabilities outstanding at December 31, 2005:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
1997 MTF Note	\$ 210,000	\$ -	\$ 70,000	\$ 140,000	\$ 70,000
2000 MTF Note	1,320,000	-	220,000	1,100,000	220,000
2000 MTF Note Series B	420,000	-	70,000	350,000	70,000
2002 MTF Notes	350,000	-	50,000	300,000	50,000
2002 MTF Notes Series B	640,000	-	80,000	560,000	80,000
Capital leases –					
Road Equipment	38,400	-	38,400	-	-
Installment Note	-	1,419,191	-	1,419,191	283,838
Accrued vacation	<u>74,909</u>	<u>148,437</u>	<u>145,325</u>	<u>78,021</u>	<u>34,797</u>
	<u>\$3,053,309</u>	<u>\$ 1,567,628</u>	<u>\$ 673,725</u>	<u>\$3,947,212</u>	<u>\$ 808,635</u>

Significant details regarding outstanding long-term liabilities are presented below:

MTF Note – Series 1997

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 1997, dated October 1, 1997, in the original amount of \$700,000. The payments are due in annual installments on August 1 of \$70,000 through 2007, with interest ranging from 4.8% to 4.9% due on February 1 and August 1 of each year. At December 31, 2005, the outstanding principal balance is \$140,000.

MTF Note – Series 2000

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2000, dated May 11, 2000, in the original amount of \$2,200,000. Principal payments are due in annual installments on August 1 of \$220,000 through 2010, with interest ranging from 4.8% to 5.0% due on February 1 and August 1 of each year. At December 31, 2005, the outstanding principal balance is \$1,100,000.

MTF Note – Series 2000 B

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2000B, dated November 21, 2000 in the original amount of \$700,000. Principal payments are due in annual installments on August 1 of \$70,000 through 2010, with interest ranging from 4.8% to 5.0% due on February 1 and August 1 of each year. At December 31, 2005, the outstanding balance is \$350,000.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 9 – LONG-TERM LIABILITIES – (cont'd):

MTF Note – Series 2002

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2002, dated April 1, 2002, in the original amount of \$500,000. Principal payments are due in annual installments on August 1 of \$50,000 through 2011, with interest ranging from 4.15% to 4.60% due on February 1 and August 1 of each year. At December 31, 2005, the outstanding principal balance is \$300,000.

MTF Note – Series 2002 B

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2002B, dated May 15, 2002 in the original amount of \$800,000. Principal payments are due in annual installments on August 1 of \$80,000 through 2012, with interest ranging from 3.50% to 4.10% due on February 1 and August 1 of each year. At December 31, 2005, the outstanding balance is \$560,000.

Installment Purchase Agreements -

The Road Commission entered into an Installment Purchase Agreement in connection with the purchase of 12 truck cabs and chassis, dated May 5, 2005, in the original amount of \$884,314. The payments are due in annual installments on May 5 of \$176,862 through 2010, with interest of 3.3%, due May 5 of each year. At December 31, 2005, the outstanding principal balance was \$884,314.

The Road Commission entered into an Installment Purchase Agreement in connection with the purchase of 12 truck boxes, dated November 17, 2005 in the original amount of \$534,877. The payments are due in annual installments on November 11 of \$106,975 through 2010, with interest of 3.3% May 5 of each year. At December 31, 2005, the outstanding principal balance was \$534,877.

Accrued Vacation -

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payment for unused vacation under formulas and conditions specified in the contracts. The dollar amount of these vested rights, which has been accrued on the financial statements in the government-wide statements, amounts to approximately \$78,021 at December 31, 2005.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 9 – LONG-TERM LIABILITIES – (cont’d):

The annual requirements to amortize MTF Notes outstanding at December 31, 2005 are as follows:

	<u>MTF Note - Series 1997</u>		<u>MTF Notes-Series 2000</u>		<u>MTF Notes – Series 2002</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 70,000	\$ 6,790	\$ 290,000	\$ 71,270	\$ 130,000	\$ 34,210	\$ 602,270
2007	70,000	3,430	290,000	57,350	130,000	29,160	579,940
2008	-	-	290,000	43,175	130,000	24,110	487,285
2009	-	-	290,000	28,965	130,000	19,234	468,199
2010	-	-	290,000	14,500	130,000	14,125	448,625
2011-2012	-	-	-	-	210,000	12,060	222,060
	<u>\$ 140,000</u>	<u>\$ 10,220</u>	<u>\$1,450,000</u>	<u>\$ 215,260</u>	<u>\$ 860,000</u>	<u>\$ 132,899</u>	<u>\$ 2,808,379</u>

The annual requirements to amortize Installment Purchase Contracts outstanding at December 31, 2005 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 283,838	\$ 46,833
2007	283,838	37,467
2008	283,838	28,100
2009	283,838	18,733
2010	<u>283,838</u>	<u>9,367</u>
	<u>\$ 1,419,191</u>	<u>\$ 140,500</u>

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Lapeer County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 10 - EMPLOYEE PENSION PLAN – (cont'd):

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires employees to contribute 0%-5% of their annual compensation depending on their job category. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2005 was 0% - 13.41% depending on employees' job category. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Costs -

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$310,630 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or B-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u> <u>December 31,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2003	\$ 311,293	100 %	-
2004	272,960	100	-
2005	310,630	100	-

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Accrued</u> <u>Liability</u> <u>(AAL) Entry Age</u> <u>(b)</u>	<u>Actuarial</u> <u>(Overfunded)</u> <u>Accrued Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Unfunded</u> <u>Funded</u> <u>Ratio</u> <u>(AAL)</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered Payroll</u> <u>[(b-a)/c]</u>
2002	6,381,297	9,540,149	3,158,852	67	2,329,568	136 %
2003	6,646,644	10,124,306	3,477,662	66	2,426,310	143
2004	6,906,381	10,846,781	3,940,400	64	2,512,472	157

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 11 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 11, the Lapeer County Road Commission provides postemployment health care, limited optical/dental reimbursement, prescription reimbursement, and life insurance to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. These expenditures are recognized on a pay-as-you-go basis. For the year ended December 31, 2005, health care costs amounted to approximately \$316,811 for 37 eligible participants, \$22,111 for optical/dental reimbursement for approximately 37 eligible participants, \$22,685 for prescription reimbursement for approximately 37 eligible participants and \$10,867 for life insurance costs for approximately 34 eligible participants.

NOTE 12 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Lapeer County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also as a part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State, cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 13 - RISK MANAGEMENT:

The Road Commission provides for its employees dental/optical reimbursement programs for regular full-time employees, spouses and dependent children under nineteen (19) years of age. Based on their bargaining unit employees may be reimbursed for dental and/or optical up to \$575 or \$650 for bills or apply their reimbursement amount to the cost of the insurance premium.

The Road Commission carries commercial insurance for all risks of loss, including life, disability and health insurance, workers' compensation, automobile liability, errors or omissions liability and bodily injury, property damage, personal injury liability and property (building and grounds). The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

LAPEER COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 14 – EQUIPMENT EXPENDITURE/EXPENSE NET BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure/expense in the various maintenance activities. An expenditure/expense credit is reported as an offset against the equipment expenditure/expense activities. Accordingly, the equipment rental does not affect total expenditures/expense or the available operating equity of the Road Commission's General Operating Fund. The net balance for the year ended December 31, 2005 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 1,603,879	\$ 875,123
Indirect	484,883	459,050
Operating	<u>349,324</u>	<u>349,324</u>
	2,438,086	1,683,497
Less-equipment rental	<u>2,181,669</u>	<u>2,181,669</u>
	<u>\$ 256,417</u>	<u>\$ (498,172)</u>

NOTE 15 – CAPITAL OUTLAY EXPENDITURES BALANCE:

On the governmental financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The balance at December 31, 2005 consists of the following:

Capital Outlay –	
Land improvements, building and equipment	\$ 1,894,491
Less - depreciation/depletion	(786,005)
- retirements	<u>(70,640)</u>
	<u>\$ 1,037,846</u>

SUPPLEMENTARY INFORMATION

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

DETAIL SCHEDULE OF REVENUES AND OTHER SOURCES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2005

	2005	2004
Revenues:		
Permits	\$ 161,124	\$ 159,298
Federal Sources -		
Federal aid secondary	762,017	1,287,376
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	4,445,616	4,705,163
Local roads	2,382,186	2,489,449
Primary urban roads	151,404	149,900
Local urban roads	63,604	53,710
Federal Aid Funds sold to State	802,743	658,694
Critical Bridge	128,014	213,352
	<u>7,983,567</u>	<u>8,280,268</u>
Local Sources -		
Township contributions	1,898,353	2,481,751
County appropriation	269,989	230,256
Other contributions	-	69,354
	<u>2,168,342</u>	<u>2,781,361</u>
Charges for Services -		
Trunkline maintenance	1,031,658	1,100,451
Trunkline nonmaintenance	184,868	274,538
Salvage sales	17,498	4,890
Other	219,320	-
	<u>1,453,344</u>	<u>1,379,879</u>
Interest and rents	62,502	38,814
Other -		
Gain on equipment disposal	69,673	266,869
Other	10,897	-
	<u>80,570</u>	<u>266,869</u>
Total Revenues	<u>12,671,466</u>	<u>14,193,865</u>
Other Financing Sources:		
Note Proceeds	1,419,191	-
Total Revenues and other sources	<u><u>14,090,657</u></u>	<u><u>14,193,865</u></u>

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2005

	<u>2005</u>	<u>2004</u>
Expenditures:		
Preservation - Structural Improvements		
Primary roads and structures	\$ 3,184,525	\$ 3,974,294
Local roads and structures	<u>2,461,165</u>	<u>2,158,078</u>
	<u>5,645,690</u>	<u>6,132,372</u>
Maintenance -		
Primary roads and structures,		
winter and traffic control	1,923,240	1,845,855
Local roads and structures,		
winter and traffic control	<u>2,794,309</u>	<u>2,554,085</u>
	<u>4,717,549</u>	<u>4,399,940</u>
State Maintenance -		
Trunkline maintenance	1,031,658	1,100,451
Truckline nonmaintenance	<u>184,868</u>	<u>274,538</u>
	<u>1,216,526</u>	<u>1,374,989</u>
Administrative -		
Administration	896,758	859,350
Less - handling	(15,080)	(17,156)
- overhead	(120,545)	(136,266)
- purchase discounts	<u>-</u>	<u>(893)</u>
	<u>761,133</u>	<u>705,035</u>
Equipment -		
Direct	1,603,879	1,383,947
Indirect	484,883	482,095
Operating	349,324	235,889
Less- equipment rental	<u>(2,181,669)</u>	<u>(2,191,791)</u>
	<u>256,417</u>	<u>(89,860)</u>
Other -		
Services	<u>763,258</u>	<u>138,255</u>
Capital Outlay -		
Land improvements, building		
and equipment	1,894,491	1,062,684
Less - depreciation	(786,005)	(611,892)
- retirements	<u>(70,640)</u>	<u>(97,281)</u>
	<u>1,037,846</u>	<u>353,511</u>
Debt Service -		
Principal retirement	528,400	528,400
Interest and fiscal charges	<u>136,205</u>	<u>159,860</u>
	<u>664,605</u>	<u>688,260</u>
Total Expenditures	<u><u>\$ 15,063,024</u></u>	<u><u>\$ 13,702,502</u></u>

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 161,124	\$ 161,124
Intergovernmental -				
Federal Sources	79,277	682,740	-	762,017
State Sources	5,403,735	2,579,832	-	7,983,567
Local Sources	-	2,137,935	30,407	2,168,342
Charges for Services	1,216,526	-	236,818	1,453,344
Interest & rents	-	-	62,502	62,502
Other	-	-	80,570	80,570
Total Revenues	<u>6,699,538</u>	<u>5,400,507</u>	<u>571,421</u>	<u>12,671,466</u>
Expenditures:				
Preservation - Structural Improvements	3,184,525	2,461,165	-	5,645,690
Maintenance	1,923,240	2,794,309	-	4,717,549
Other -				
Trunkline maintenance	1,031,658	-	-	1,031,658
Trunkline nonmaintenance	184,868	-	-	184,868
Administrative - net	375,142	385,991	-	761,133
Equipment - net	131,388	122,696	2,333	256,417
Other	451,080	-	312,178	763,258
Capital outlay - net	-	-	1,037,846	1,037,846
Debt principal	-	490,000	38,400	528,400
Interest	-	134,880	1,325	136,205
Total Expenditures	<u>7,281,901</u>	<u>6,389,041</u>	<u>1,392,082</u>	<u>15,063,024</u>
Other Financing Sources:				
Note Proceeds	-	-	1,419,191	1,419,191
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,419,191</u>	<u>1,419,191</u>
Excess of revenues and other sources over (under) expenditures before optional transfers	(582,363)	(988,534)	598,530	(972,367)
Optional Transfer	<u>(230,000)</u>	<u>230,000</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures	(812,363)	(758,534)	598,530	(972,367)
Fund Balance at January 1, 2005	<u>2,246,968</u>	<u>1,116,120</u>	<u>65,019</u>	<u>3,428,107</u>
Fund Balance at December 31, 2005	<u>\$ 1,434,605</u>	<u>\$ 357,586</u>	<u>\$ 663,549</u>	<u>\$ 2,455,740</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of County Road
Commissioners of Lapeer County
Lapeer, Michigan

We have audited the financial statements of the Lapeer County Road Commission as of and for the year ended December 31, 2005, and have issued our report thereon, dated May 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financing Reporting

In planning and performing our audit, we considered Lapeer County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we note a certain matter involving the internal control over financial reporting that we have reported to management of the Lapeer County Road Commission in a separate letter dated May 8, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lapeer County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of County Road Commissioners of Lapeer County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

May 8, 2006

MANAGEMENT LETTER

Board of County Road Commissioners
Lapeer County Road Commission
Lapeer, Michigan

Members of the Board:

As you know, we have recently completed the audit of the financial statements of the Lapeer County Road Commission as of and for the year ended December 31, 2005. As noted in the ***Report on Internal Control over Financial Reporting and Compliance and Other Matters***, dated May 8, 2006, there were no compliance issues or material weaknesses.

As a result of the new statement of Auditing Standards No. 99 "Consideration of Fraud in the Financial Statement Audit" putting renewed emphasis on internal control over fraud, abuse and management override of controls in the workplace, the Michigan Department of Treasury is revising the Accounting Procedures Manual for Local Units of Government in Michigan. This revision is expanding required and suggested (best practice examples) procedures in internal controls over the various accounting processes.

In order to assist the Road Commission, we are making the following recommendation for your consideration to enhance accounting and administrative controls:

Controls over Transfer Vouchers

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate or fraudulent financial reporting.

We recommend that transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfer vouchers that are not standard entries, particularly if made to cash.

This recommendation was considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2005 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the management of the Lapeer County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvoir Whipple".

May 8, 2006